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CROATIA ON FOREIGN INVESTMENT MARKET

Foreign direct investments have a great impact on any national economy. They contribute to economic growth and bring modern technology into the national economy. After political democratization and economic liberalisation in Central and Eastern European countries, many of them manifested deficiency of capital for investments in the national economies.

Geographically, Croatia is located in the region of Central Europe. Croatia has shown intention to be a member of the European Union. Unfortunately, Croatia nowadays is not included with other countries from the region of Central Europe and Eastern Europe in a program of unification to EU. However, Croatia is included in the package with Bosnia and Herzegovina, Yugoslavia, Macedonia and Albania. All these countries are treated as a Western Balkan group and they are not included in any program of unification with EU. Even Romania and Bulgaria have much better chances to be included in EU sooner than Croatia. The Croatian government's "economic" explanation for this fact is due to a lack of interest of foreign investors for Croatia. The question is: is the amount invested by foreign investors through foreign direct investments really significantly smaller in Croatia than in other Central and East European countries?

That is why it is necessary to research how foreign investors targeted often Croatia? What is the position of Croatia on the world FDI[1] market compared with other Central and Eastern European countries? First of all, the main characteristics of FDI need to be examined

[1] FDI is foreign direct investment

1. Main Characteristic of FDI

FDI or any other direct investments are described as investment in new or existing enterprise and the investor keep the right to manage the whole economic policy of invested enterprise.[2] The investor of FDI in some enterprise has automatically the control of production, sales, financial policy, etc.

FDI are always having targets more than just for financial purposes in one enterprise. Usually FDI have a purpose to control the whole market of concrete industry and accompanying industry. This means that it has both horizontal and vertical control of the market according to the financial interests of investors.

FDI can be diversified in a few groups according to the ownership such as:[3]

- Complete investment by one investor,
- Equivalent investment by two or more investors and
- Majority or minority ownership by many investors.

According to the classification of IMF any investment can be treated as FDI if one person or one group holding at least 25% of securities, and on this basis they have the right to be represented in the board of directors.[4] If such a group of owners do not exist, than the foreign investment can be treated like FDI only if more than 50% of shareholders with right to vote is a citizen from one single country.[5] This means that Investors with the same citizenship and economic interest can form an investor group of owners by collectively grouping their ownership of shares. Otherwise, it is a portfolio investment.

FDI is usually a subject of business matter for transnational and multinational corporations. For some reasons economists do not make a clear distinction in meaning between transnational and

[2] Dr. Kenneth A. Froot: "Foreign Direct Investment", University of Chicago, Chicago 1993, page 133.

[3] Dr. Steve Chan: "Foreign Direct Investment in Changing Global Political Economy", Saint Maritns's, New York 1995, page 247.

[4] World Bank: "Foreign Direct investment: Lessons of Experience", New York 1998, page 242.

[5] World Bank: "Foreign Direct investment: Lessons of Experience", New York 1998, page 361.

Multinational Corporation. Transnatinal corporation operates the business on the markets of many countries, but is owned by the citizens from one country and in that country is located the head office of the corporation[6]. Multinational Corporation is operating on the markets of many countries also, but the owners are located in more than one country. Some good examples are: for transnational corporation is Coca Cola, and for multinational corporation is Dymler Chrysler.

Although transnational and multinational corporations are operating on the markets of many countries, all of them are always part of the policy from only one country. Coca Cola is always and only American corporation and has business interests in many countries. Dymler Chrysler has a similar situation, but the leaders are two companies, Mercedes and Chryslers, and their head offices are located in two different countries.

International corporations realise not only business interest for their owners, but also some political interest from their national countries. In the case of Dymler Chrysler those interests are coming from German in USA governments. That is reality and nobody has to assume that fact.

Further in this research instead of using transnational and multinational corporation terms the term international corporation will be used.

International corporations through FDI have been using their advantages in excellent organization, technology, and business experience; mass production, stable marketing channels and trademarks. All these advantages international corporations have been used with only one purpose, to increase their business efficiency. International corporations are getting through FDI additional resources for development, import expansion from the country where capital was invested.

Advantages for the country where FDI came are:

- No risk of unprofitable investment,
- This investment is always guided in economic development,
- There is no risk of investment inefficiency or increasing some public spending.

Disadvantages of FDI are:

- Economic interest strongly connected only with concrete investment project, but not with development program of country where is FDI invested,
- High profit rate is only one motivation for investors,
- Economic development of some country is guided by needs of investors not by her government,
- Increasing the economic dependency of country importer FDI,
- The country importer of FDI will has a hard way for independent technological development,
- FDI eliminate the competitors from domestic country and make disintegration of national economy.

To avoid all these problems with negative influence of FDI, developing countries preferred joint ventures as special type of FDI. In that way developing countries are trying to prevent themselves of strong dependency of investors.

2. FDI in Croatia

Firstly, the choice of researched period has to be explained. Generally speaking Croatia had a war on her own territory approximately to the end of 1995. From 1991 when Croatia stepped in national independency, she had a war right a way to the end of 1995, when Croatia finally won in that war. That period can't be taken for any economic research because foreign investors are not interested to be included in war risk for their investments in any country. That is why 1995 year has been taken as base year for research.

Table 1 shows the FDI in new projects and securities in Croatia.

Table 1. FDI in Croatia[7]

Years	New Projects	Securities
1995	0.115	0.482
1996	0.506	0.988
1997	0.517	1.492
1998	0.893	2.733
1999	1.382	4.028

(In billions of U.S. dollars)

[6] Dr. Lars Oxelheim: "The Global Race for Foreign Direct Investment", Washington 1993, page 157.

[7] World Investment Report 2000: Cross-border mergers and Acquisitions and Development (Geneva: UNCTAD, 2000), United Nations publication, Sales No. E.00.II.D.20, page 283, 284, 285, 286.

On the base of data from Table 1 it is possible to make two conclusions:

1. Foreign investments as direct and stock investments were growing year after year in bigger amounts, and

2. Foreign investments as stocks were coming into Croatia in bigger amounts then direct investments in new enterprises.

Table 2 shows that FDI securities were coming into Croatia in amounts between 2 and 5 times more then FDI in new projects. The interesting year was 1995. In that year FDI in securities were almost five times bigger than FDI in new projects. It is very hard to say why that happened, but probably the foreign investors felt more comfortable to invest in an already existing company than to start a completely new investment business.

Table 2. Relation of FDI in New Projects and in Securities[8]

Years	Securities/New Projects
1995	4.50
1996	1.92
1997	2.88
1998	3.06
1999	2.91

(In coefficient)

Successfulness to attract foreign investors to invest in Croatia can be examined by the average growth rate:[9]

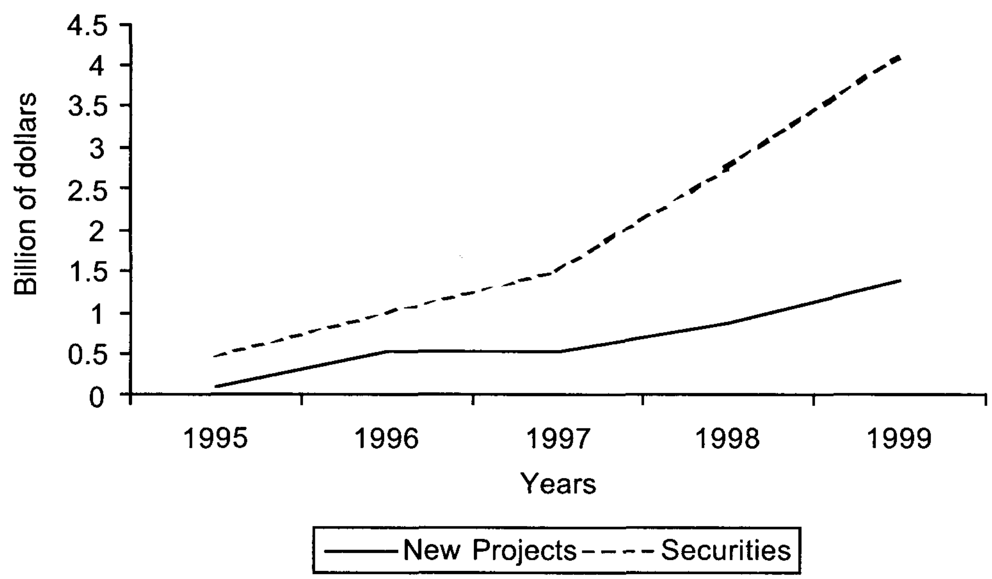
$$R = [\sqrt[n-1]{X_n/X_0}]\ 100$$

In the above formula X_n represents inflow of direct foreign investments in the last year of researched period, X_0 represents inflow in the first year and **n** represents number of years. The results are:

[8] Table 1, page 2.

[9] Dr. Douglas A. Lind and Dr. Robert D. Mason: "Statistical Techniques in Business and Economics", New York, NY 1999, page 178.

Graph 1. Foreign Investments in Croatia



- The average growth rate of inflow of FDI in the new project was 86.2%,

- The average growth rate of inward of FDI in the securities was 70.0%.

These data percentages are telling about strong growth of inflow of FDI into Croatia. This also means that Croatia strongly improved her attractiveness for foreign investors.

The very important aspect of inflow FDI is her participation in Croatian GDP expressed in percentage. Table 3 shows GDP of Croatia and per capita GDP year by year.

Table 3. Croatian GDP and GDP Per Capita[10]

Year	GDP (In billions of U.S. dollars)	GDP per capita (In units of U.S. dollars)
1995	18.8111	3880.554
1996	19.8713	4263.599
1997	20.1087	4304.940
1998	21.7519	4660.253
1999	20.1765	4326.247

On the basis of data from Table 3, Table 4 was developed, which shows participation of FDI in GDP of Croatia.

Table 4. Participation of FDI In GDP Expressed in Percentage[11]

Year	New Projects	Securities Investment
1995	0.61	2.56
1996	2.55	4.97
1997	2.57	7.42
1998	4.10	12.56
1999	6.85	19.96

(In percentage)

The calculated results shown in Table 4 show a stable growth of participation of FDI in GDP. The only difference is that the participation of FDI in securities in GDP of Croatia grew much stronger then FDI in new projects.

The problem with this type of presentation is value GDP. Russia today has a higher GDP then Croatia or Slovakia, but it does not have a higher economic level of development. GDP per capita is much better measure to show the economic level of development and the standard of living. That is why it is more useful to count the participation of FDI per capita.

Table 5 shows the total population in Croatia and cannot be taken as an exact number because the last census was in 1991 just before the war started. The population in Croatia probably has changed, but it is impossible to say exactly how much. That is why estimates of population by the IMF are used.

Table 5. The Number of Population in Croatia[12]

Year	Population
1995	4.67
1996	4.49
1997	4.57
1998	4.50
1999	4.48

(In millions of units)

Table 6. FDI in Croatia Per Capita

Year	New Projects	Securities
1995	24.62	103.21
1996	112.69	220.04
1997	113.13	326.48
1998	198.44	607.33
1999	308.48	899.12

(In units U.S. dollars)

The data from Table 6 once again confirms the strong growth of FDI of both types. How much can Croatia be satisfied with these results?

The answer to this question can be given only by comparison with other countries. It should be noted that Croatia couldn't be compared with most developed countries because they have completely different economic situation in every economic aspect. However, Croatia can be and has to be compared with former communist countries from Europe

[10] The World Bank: "World Economic Outlook", New York, NY 2000, page 183.

[11] Table 1 and 3, page 6.

[12] IMF: "International Financial Statistics", New York 2001, page: 266.

because all these countries had similar economic pasts, and they are on a very similar level of economic development like Croatia. The following countries belong to this group:

- Albania,
- Bulgaria,
- Byelorussia,
- Czech Republic,
- Estonia,
- Hungary,
- Latvia,
- Lithuania,
- Macedonia,
- Moldova,
- Poland,
- Romania,
- Slovakia,
- Slovenia and
- Ukraine.

Croatia has to also try comparing herself with developed countries of Europe, but not with the leaders of EU in economic development. She has to try to follow other developed countries from Europe, which are and aren't members of EU such as:

- Austria,
- Finland,
- Greece,
- Iceland,
- Ireland,
- Portugal,
- Spain and
- Turkey.

These seven countries are not leaders in economic development in EU. Turkey still does not have full membership in EU. Iceland is not a member of EU and does not show any interest to be one. It should be noted that FDI in new projects and in securities would be analyzed separately. FDI in new projects was analyzed first and subsequently FDI in securities was studied.

3. FDI in New Projects

3.1. Comparison With East European Countries

Attention has to be given to Table 7 where data about FDI is presented. The data shows that Croatia didn't have a bad position on the FDI market for new projects. For example, Croatia was fourth with respect to Czech Republic, Hungary and Poland for FDI investors.

The reasons why Croatia didn't have a better position in the FDI market for new projects are probably numerous, but two reasons can be discussed immediately. The first reason is that Croatia had a war on her own territory unlike other middle and eastern European countries. The second very important reason is due to the fact that Poland, Czech Republic and Hungary are geographically located closely to the most developed country in EU, Germany. Their geographic location has allowed their economies to have position of peripheral economies with respect to the German economy. Hungary has a position of peripheral economy with the Austrian national economy. How useful is it for some national economy to be periphery of some other foreign economy is questionable, but currently it is useful for these three countries.

Table 7. Total Amount of FDI in New Projects[13]

Country	1995	1996	1997	1998	1999
Albania	0.070	0.090	0.048	0.045	0.041
Bulgaria	0.090	0.109	0.505	0.537	0.770
Byelorussia	0.015	0.073	0.200	0.149	0.225
Czech Re.	2.562	1.428	1.300	2.720	5.108
Estonia	0.201	0.151	0.267	0.581	0.306
Hungary	4.453	2.275	2.173	2.036	1.944
Latvia	0.180	0.382	0.521	0.357	0.366
Lithuania	0.073	0.152	0.355	0.926	0.486
Macedonia	0.010	0.012	0.016	0.118	0.022
Moldova	0.067	0.024	0.076	0.081	0.034
Poland	3.659	4.498	4.908	6.365	7.500
Romania	0.420	0.265	1.215	2.031	0.961
Slovakia	0.195	0.251	0.206	0.631	0.322
Slovenia	0.176	0.185	0.321	0.165	0.090
Ukraine	0.267	0.521	0.624	0.743	0.496
Croatia	*0.115*	*0.506*	*0.517*	*0.893*	*1.382*

(In billions of U.S. dollars)

[13] World Investment Report 2000: Cross-border mergers and Acquisitions and Development (Geneva: UNCTAD, 2000), United Nations publication, Sales No. E.00.II.D.20, page 283, 284, 285, 286.

Table 8. Average Growth of Inflow FDI in New Projects[14]

Country	Rate
Albania	-12.5
Bulgaria	71.0
Byelorussia	96.8
Czech Re.	18.8
Estonia	11.1
Hungary	-18.7
Latvia	19.4
Lithuania	60.6
Macedonia	21.8
Moldavia	-15.6
Poland	19.6
Romania	23.0
Slovakia	13.3
Slovenia	-15.4
Ukraine	16.7

(In percentage)

A different perspective is to look for inflow of FDI as the average rate of growth in researched period[15]. When the Croatian average rate of growth is compared with all others, it can be concluded that Croatia had the second highest rate in this group. Only Byelorussia had a higher rate and some of the countries had a negative average rate of growth (e.g., Hungary, Slovenia).

The data from Table 10 shows that only Estonia had participation of FDI in her GDP for new projects more then 10% in 1998. Czech Republic had almost the same result of 10% in 1999. Latvia made the same success in 1997, when participation of FDI for new projects and the GDP was 9.24%.

In 1999, Croatia was the second country in Eastern Europe with 6,85% participation of FDI for new projects in her GDP. Only Czech Republic was a head of Croatia with 9.24%, as mentioned before.

The valuation of importance and successfulness of some country to attract investors of FDI in her national economy as participation in GDP, expressed in percentage, has only one disadvantage. Sometimes participation of FDI in GDP can be increased on the basis of decreasing GDP, even though inflow of foreign investment was not changed.

14 Counted on the base of data from Table 7, page 9.

15 Average grout rate was counted by the statistic's formula used on the page 10.

16 World Investment Report 2000: Cross-border mergers and Acquisitions and Development (Geneva: UNCTAD, 2000), United Nations publication, pages: 283, 284, 285, 286.

Table 9. Total Amounts of GDP[16]

Countries	1995	1996	1997	1998	1999
Albania	2.4218	2.6890	2.2841	3.0582	3.6761
Bulgaria	13.1057	9.8350	10.1457	12.2546	12.7141
Byelorussia	10.3923	13.9031	13.5955	14.5552	11.5613
Czech Re.	52.0424	57.9233	52.8035	55.7301	53.1198
Estonia	3.5495	4.3566	4.6367	5.2087	5.1361
Hungarian	44.6685	45.1853	45.7332	47.0386	48.4008
Latvia	4.4101	5.1372	5.6385	6.0859	6.2585
Lithuania	6.0258	7.8923	9.5850	10.7475	10.6494
Macedonia	4.4529	4.184	3.7071	3.469	3.5662
Moldavia	1.6804	1.9361	2.1885	1.9300	1.303
Poland	126.3177	142.9651	143.1322	157.2173	154.1465
Romania	35.4823	35.3177	35.1530	41.6776	34.1643
Slovakia	17.3773	18.7806	19.4520	20.3616	18.836
Slovenia	18.7432	18.8773	19.0014	19.9148	21.7240
Ukraine	29.2838	42.7697	43.5439	41.8288	30.7641
Croatia	*18.8111*	*19.8713*	*20.1087*	*21.7519*	*20.1765*

(In billions of U.S. dollars)

Table 10. Participation of FDI in New Projects in GDP[17]

Countries	1995	1996	1997	1998	1999
Albania	2.89	3.35	2.10	1.47	1.11
Bulgaria	0.69	1.11	4.98	4.38	6.06
Byelorussia	0.14	0.52	0.35	0.31	0.35
Czech Re.	4.92	2.46	2.46	4.88	9.62
Estonia	5.66	3.47	5.76	11.15	5.96
Hungarian	9.97	5.03	4.75	4.33	4.02
Latvia	4.08	7.43	9.24	5.87	5.84
Lithuania	1.21	1.92	3.70	8.61	4.56
Macedonia	0.22	0.27	0.43	3.40	0.61
Moldavia	3.99	1.24	3.47	4.20	2.61
Poland	2.90	3.15	3.14	3.12	4.13
Romania	1.18	0.75	3.46	4.90	2.81
Slovakia	1.12	1.34	1.06	3.06	1.71
Slovenia	0.94	0.98	1.69	0.83	0.41
Ukraine	0.91	1.22	1.43	1.78	1.61
Croatia	*0.61*	*2.55*	*2.57*	*4.10*	*6.85*

(In billions of U.S. dollars)

Table 11. The Evidence of Population in East European Countries[18]

Countries	1995	1996	1997	1998	1999
Albania	3.61	3.67	3.73	3.79	3.11
Bulgaria	8.41	8.36	8.31	8.25	8.21
Byelorussia	10.28	10.25	10.22	10.19	10.16
Czech Re.	10.33	10.32	10.30	10.29	10.28
Estonia	1.48	1.47	1.46	1.45	1.41
Hungarian	10.23	10.19	10.15	10.11	10.07
Latvia	2.51	2.49	2.47	2.45	2.43
Lithuania	3.71	3.71	3.71	3.70	3.66
Macedonia	2.00	2.00	2.00	2.00	2.00
Moldavia	4.35	4.33	3.65	3.65	4.38
Poland	38.59	38.62	38.65	38.67	38.65
Romania	22.68	22.61	22.55	22.50	22.46
Slovakia	5.36	5.37	5.38	5.39	5.40
Slovenia	1.99	1.99	1.99	1.98	1.99
Ukraine	51.73	51.33	50.89	50.50	50.66
Croatia	*4.67*	*4.49*	*4.57*	*4.50*	*4.48*

(In millions of U.S. dollars)

To avoid this problem inflow and to get a more precise picture about the importance and successfulness the country has to attract investors of FDI in national economy has to be looked as FDI value per capita. The very important data for that type of counting is number of population. The data about population was taken from an IMF publication. After that, the FDI amounts were divided by the number of population and the result was FDI per capita.

The data from Table 12 shows some different views about inflow of FDI per capita from abroad in Eastern European countries. First, Hungary had a decreased inflow of direct investment every year.

The inflow of FDI in the Czech Republic was very volatile. She had the smallest inflow of FDI in 1997, and the highest in 1999.

Poland was marked in the previous data as a leader in attracting foreign investors. According to the data from Table 12, Poland was more attractive than Croatia for foreign investors from 1995-1997. In the last two years Croatia was more attractive then Poland for foreign investors when FDI per capita was calculated.

Table 12. FDI Per Capita in New Projects[19]

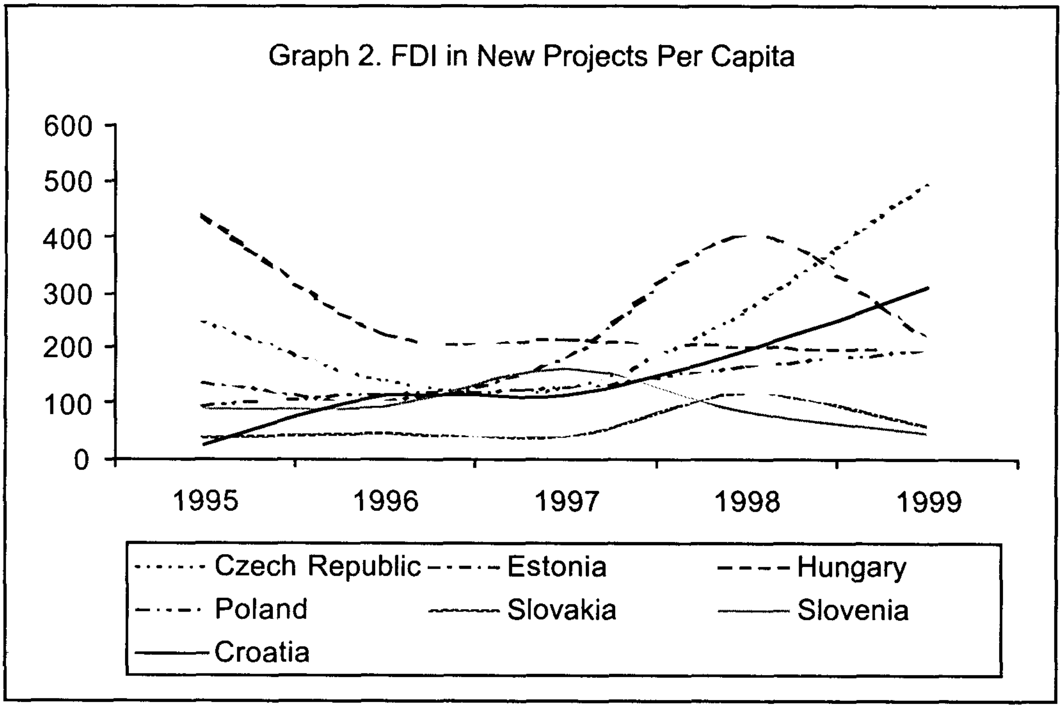
Countries	1995	1996	1997	1998	1999
Albania	19.39	24.52	12.86	11.87	13.18
Bulgaria	10.70	13.04	60.77	65.09	93.79
Byelorussia	1.46	7.12	19.57	14.62	22.14
Czech Re.	248.01	138.37	126.21	264.33	496.89
Estonia	135.81	102.72	182.88	400.69	217.02
Hungarian	435.29	223.26	214.09	201.38	193.05
Latvia	71.71	153.41	210.93	145.71	150.62
Lithuania	19.68	40.97	95.69	250.27	132.79
Macedonia	5.00	6.00	8.00	59.00	11.00
Moldavia	15.40	5.54	20.82	22.19	7.76
Poland	94.82	116.47	126.99	164.60	194.05
Romania	18.52	11.72	53.88	90.27	42.79
Slovakia	36.38	46.74	38.29	117.07	59.63
Slovenia	88.44	92.96	161.31	83.33	45.23
Ukraine	5.16	10.15	12.26	14.71	9.79
Croatia	*24.62*	*112.69*	*113.13*	*198.44*	*308.48*

(In units of U.S. dollars)

17 Counted on the basis of data from Table 1 and Table 11, pages 3 and 9.

18 International Monetary Fond: "International Financial Statistics", New York 2000, pages: 266, 80, 114, 144, 188, 276, 314, 334, 372, 406, 412, 432, 498, 516, 526, 574, 676, 684, 690, 738, 744,762, 836.

19 Counted on the basis of data from Table 1 and Table 13, pages 3 and 11.



3.2. Comparison With West European Countries

The data from Table 13 shows that developed countries, which are not leaders in Europe, are not more attractive for foreign investors than Croatia. Especially when Croatia is compared to Turkey and Greece. Some important facts are that:

- Greece is a full member of EU, and
- Turkey has had a special status in EU for a long time.

These facts didn't help Greece and Turkey to have a better position in attractiveness for FDI. These countries have one big advantage though, and it because they have better experience on foreign capital markets than Croatia.

Iceland is less attractive for FDI than Croatia. Iceland had very small inflows of FDI in her economy.

Portugal has been so many times emphasized by the Croatia government as a country, which used her membership in EU in the best way. Portugal has never had 3 billions dollars inflow of FDI in new projects. This means that Portugal didn't have a spectacular increase of her attractiveness for investors of FDI.

Table 13. FDI in New Projects[20]

Country	1995	1996	1997	1998	1999
Austria	1.904	4.426	2.654	4.567	2.813
Finland	1.063	1.109	2.114	12.144	3.023
Greece	1.053	1.058	0.984	0.700	0.900
Iceland	-0.009	0.084	0.149	0.148	0.066
Ireland	1.447	2.168	2.743	8.579	18.322
Portugal	0.685	1.368	2.278	2.802	0.570
Spain	6.161	6.585	6.375	11.683	9.355
Turkey	0.855	0.722	0.805	0.940	0.783
Croatia	*0.115*	*0.506*	*0.517*	*0.893*	*1.382*

(In billions of U.S. dollars)

Finland had a big inflow of FDI in 1998 of 12 billions dollars, but except for that year in all other years she had investments between 1 and 3 billion dollars.

Spain is the only country with a stable inflow of FDI of 6 billions dollars yearly from 1995 to 1997.

20 International Monetary Fond: "International Financial Statistics", New York 2000, pages 283, 284, 285, 286.

In 1998, she had more than 11 billion dollars and in 1999 more than 9 billion dollars inflow of FDI.

Membership in EU does not mean automatically a better position in the FDI market. Croatia has to keep trying to increase attraction for foreign investors for her economy.

The average rate of growth for inflow of FDI in these seven countries shown in Table 14 was calculated the same way as previously described in this research paper.

Positive average growth has been made only by Spain with 11.0% and Finland with 29.9%. All other countries had negative average growth of FDI in their economies. In comparison with these European countries, Croatia can be more then satisfied with her result.

Like in previous research on east European countries, the participation of FDI in GDP was calculated. Firstly, the total amount of GDP is presented and secondly, on the basis of these data the participation of FDI in GDP was calculated and expressed in percentage.

The data from Table 15 shows that only 1998 and 1999 showed significant results. In 1998, Ireland and Finland had a much higher participation of foreign direct investment in their GDP then anyone else. In 1999, Ireland once again had an enormously high participation of direct investment, which was 19.44% in her GDP. However, in all other years, Croatia would be the second or third country with participation of direct investment in her national economy. The only exception is 1995.

[21] Counted on the base of data from Table 16, page 14.

Table 14. Average Rate Growth of FDI[21]

Country	Rate
Austria	110.25
Finland	29.9
Greece	-3.8
Iceland	-
Ireland	-11.4
Portugal	-4.5
Spain	11.0
Turkey	-2.2
Croatia	*86.2*

(In percentage)

The very important findings from Table 16 is that Croatia was not a member of EU, and currently she is not even close to obtaining a full membership. Except for Iceland and Turkey, all other countries are full members of EU. Turkey is in the process of becoming a member of EU very soon. All these things are favourable for these countries, but it did not help them to attract more investors to invest in their economies. Greece and specially Turkey, for example, really need to obtain foreign investment for a stronger economic growth. Their national accumulation of capital is not enough for stronger economic growth. This results in a small attractiveness for foreign investors.

[22] World Investment Report 2000: Cross-border mergers and Acquisitions and Development (Geneva: UNCTAD, 2000), United Nations publication, pages: 283, 284, 285, 286.

Table 15. Total Amount of GDP[22]

Country	1995	1996	1997	1998	1999
Austria	235.5971	231.7316	206.6676	210.9137	208.0530
Finland	129.2899	127.5408	122.4193	129.3349	129.8316
Greece	117.5640	124.3609	120.9335	121.5129	125.0903
Iceland	6.9800	7.3143	7.4742	8.2679	8.8149
Ireland	65.7989	72.3632	78.6656	85.0270	94.2212
Portugal	107.0874	112.2730	105.7141	111.8740	114.0157
Spain	584.9840	608.8142	555.5684	582.1370	596.7104
Turkey	173,5252	176.7141	190.6639	200.8035	185.2144
Croatia	*18.8111*	*19.8713*	*20.1087*	*21.7519*	*20.1765*

(In billions of U.S. dollars)

Table 16. Participation of FDI in New Projects in GDP[23]

Country	1995	1996	1997	1998	1999
Austria	0.81	1.91	1.28	2.16	1.35
Finland	0.82	0.87	1.73	9.39	2.33
Greece	0.89	0.85	0.81	0.58	0.72
Iceland	-	1.15	1.99	1.79	0.75
Ireland	2.20	2.99	3.49	10.09	19.44
Portugal	0.64	1.22	2.15	2.50	0.50
Spain	1.05	1.08	1.15	2.01	1.57
Turkey	0.49	0.41	0.42	0.47	0.42
Croatia	*0.61*	*2.55*	*2.57*	*4.10*	*6.85*

(In percentage)

Table 17. Number of Population[24]

Country	1995	1996	1997	1998	1999
Austria	8.05	8.06	8.07	8.08	8.18
Finland	5.11	5.12	5.14	5.15	5.17
Greece	10.45	10.48	10.50	10.52	10.63
Iceland	0.27	0.27	0.27	0.27	0.28
Ireland	3.60	3.63	3.67	3.70	3.75
Portugal	9.92	9.93	9.94	9.97	9.96
Spain	39.21	39.27	39.32	39.37	39.42
Turkey	60.61	61.53	62.47	63.45	64.39
Croatia	*4.67*	*4.49*	*4.57*	*4.50*	*4.48*

(In millions of units)

Finally, the GDP per capita needs to be examined with these countries and Croatia. Table 17 shows population numbers Table 18 presents the FDI in new projects per capita.

FDI in new projects per capita are giving a different picture about the leaders in this group. Spain had the biggest amount of FDI in new projects and wasn't much better then Croatia. Especially when the statistics are examined for1999 and Croatia had even a larger FDI in new projects per capita.

Ireland is a leader in this group with her FDI in new projects per capita, because in five years she increased FDI more then ten times (i.e. from $400 dollars per capita, she had almost $5,000 dollars per capita).

Finland enormously increased FDI in 1998, but in all other years didn't have very large amounts of FDI. It is difficult to explain what was the reason(s) for such great investments in 1998, but this was probably due to some corporations from abroad who found great business interests in Finland.

Table 18. FDI in New Projects Per Capita[25]

Country	1995	1996	1997	1998	1999
Austria	236.52	549.13	328.87	565.22	343.89
Finland	208.02	216.60	411.28	2358.06	584.72
Greece	100.76	100.95	93.71	66.54	84.67
Iceland	-	311.11	551.85	548.15	235.71
Ireland	401.94	597.24	747.41	2,318.65	4,885.87
Portugal	69.05	137.76	229.17	281.04	57.23
Spain	157.13	167.68	162.13	296.75	237.32
Turkey	14.11	11.73	12.89	10.06	12.16
Croatia	*24.62*	*112.69*	*113.13*	*198.44*	*308.48*

(In units of U.S. dollars)

Greece is a full member of EU, but that fact didn't mean too much for foreign investors. She had a great inflow of FDI in 1995, but in all other years didn't have a larger inflow of amount of FDI in new projects per capita than Croatia.

Portugal is a full member of EU and didn't have an investment boom. The best year for this country was 1998 where there was $280 of inflow per capita. In 1999 Portugal had only $57 per capita of FDI.

Austria had big oscillations of invested FDI per capita, and oscillations were approximately between $200 and $500.

Turkey could not attract more than $15 inflow of FDI per capita.

4. FDI In Securities

4.1. Comparison With Easter European Countries

In this type investment the owner of the invested capital does not have to be moved with his investment to the invested country. The two main points of

23 Counted on the base of data from Tables 13 and 15, pages 14 and 16.

24 International Monetary Fond: "International Financial Statistics", New York 2000, pages 114, 266, 334, 372, 412, 432, 684, 762, 828.

25 Counted on the base of data from Tables 13 and 17, pages 14 and 15.

attention for the investor are profit rate and security of investment.

Security of investment is maybe more important than profit rate, because the foreign investor wants to be secured in their investment by the law and they do not want to be faced with any kind of crime bankruptcy. That is why profitability of investment is important, but not quite enough for investors to make decisions for investment. The foreign investor must get a better profit rate for his investment than at home to make a decision to invest abroad. Profit rate is important to him, but is secondary to making a decision about investment in some foreign securities.

On the basis of data from Table 19, the leaders in this group of countries are Poland, Hungary and Czech Republic based on the total amount of investment.

Hungary had from 1995 through to 1999 more than 10 billion dollars yearly inflow of FDI. Similarly, Poland had a little less than 10 billions of dollars invested only in 1995, but in 1999 Poland had an inflow of almost 30 billion dollars. Czech Republic experienced slower growth of inflow of FDI in securities between 1995 and 1997 and it was between 6 to 7 billion dollars yearly. Various changes started in 1998 and 1999 when the Czech Republic had rapid growth of FDI in securities. In 1998, this amount was more than 14 billion dollars and in 1999 more than 16 billion dollars inflow of FDI in securities.

Table 19. FDI in Securities[26]

Country	1995	1996	1997	1998	1999
Albania	0.201	0.291	0.339	0.384	0.425
Bulgaria	0.337	0.446	0.943	1.488	2.258
Byelorussia	0.050	0.057	0.220	0.472	0.697
Czech Re.	7.352	7.061	6.763	14.375	16.246
Estonia	0.731	0.886	1.148	1.822	2.441
Hungary	10.007	14.690	15.882	15.862	19.095
Latvia	0.616	0.679	0.901	1.558	1.885
Lithuania	0.352	0.647	1.041	1.625	2.063
Macedonia	0.033	0.044	0.060	0.179	0.200
Moldavia	0.094	0.137	0.180	0.275	0.335
Poland	7.843	11.463	16.463	22.479	29.979
Romania	1.150	1.243	2.467	5.335	5.441
Slovakia	1.248	1.109	1.293	2.502	2.044
Slovenia	1.759	2.028	2.349	2.907	2.997
Ukraine	0.910	1.431	2.054	2.811	3.248
Croatia	*0.482*	*0.988*	*1.336*	*2.733*	*4.028*

(In billions of U.S. dollars)

Croatia had a strong growth of inflow of FDI in securities as well where there was more than ten times increase of inflow of FDI in securities. In 1999 Croatia took fifth place as the country in the group with her inflow of FDI in securities.

To make the right conclusion about inflow of this type FDI in Eastern European countries and position of Croatia in this group, Table 20 shows the average growth rate of FDI in securities. For the calculation of average growth rate the same statistical formula was used as before:

$$R = [\sqrt[n-1]{X_n/X_0}]\ 100$$

Croatia was the second country with her average growth rate of FDI in securities. The first country was Byelorussia with an enormously high average rate of 93%.

Table 20. Average Growth Rate[27]

Country	Percentage
Albania	20.57
Bulgaria	60.89
Byelorussia	93.23
Czech Re.	21.92
Estonia	35.18
Hungary	17.53
Latvia	32.26
Lithuania	55.59
Macedonia	-36.27
Moldavia	37.40
Poland	39.82
Romania	47.48
Slovakia	13.13
Slovenia	14.25
Ukraine	39.32
Croatia	70.02

(In percentage)

[26] World Investment Report 2000: Cross-border mergers and Acquisitions and Development (Geneva: UNCTAD, 2000), United Nations publication, Sales No. E.00.II.D.20, page 294, 295, 296.

[27] Counted on the base of data from Table 21, page 18,

Participation of FDI in securities in GDP gave a different picture about the leaders in attractiveness for this group. The leaders are Hungary and Estonia and following them are Czech Republic and Latvia.

Croatia started from a low position, but during the five years she changed her position and in 1999 she was in the middle with attractiveness for foreign investors. Croatia could not perform like in FDI in new projects because this type investment depends mainly on the political stability in the country. That was the problem for Croatia, because Croatia had a war and she couldn't be included completely in the world capital market. Right after the war some enterprises become very interesting for foreign investors, like "Pliva". Her shares are quoted at European stock markets daily.

Participation of this type of FDI in GDP shows big differences between the countries from this group, Table 22. In 1995 some countries had a percentage lower than 1% of participation of FDI in securities, such as Macedonia and Byelorussia. In the same year Croatia had 2.56% of participation of FDI in securities, which is very low. Good examples that have to be emphasized for 1995 are Hungary with more than 22%, and Estonia with 20%. Latvia and

Table 21. Participation of FDI in Securities in the GDP

Country	1995	1996	1997	1998	1999
Albania	8.30	10.82	14.84	12.56	11.56
Bulgaria	2.57	4.53	9.29	12.14	17.76
Byelorussia	0.48	0.41	1.62	3.24	6.03
Czech Re.	14.13	12.19	12.81	25.79	30.58
Estonia	20.59	20.34	26.35	34.98	47.53
Hungary	22.40	32.51	34.73	33.72	39.45
Latvia	13.97	13.22	15.98	25.60	30.12
Lithuania	5.84	8.20	10.86	15.12	19.37
Macedonia	0.74	1.05	1.62	5.16	5.61
Moldova	5.59	7.08	8.22	14.25	25.71
Poland	6.21	8.02	11.50	14.30	19.45
Romania	3.24	3.52	7.02	12.80	15.92
Slovakia	7.18	5.90	6.65	12.29	9.21
Slovenia	9.38	10.74	12.36	14.60	13.79
Ukraine	3.17	3.34	4.72	6.72	10.56
Croatia	*2.56*	*4.97*	*6.64*	*12.56*	*19.96*

(In percentage)

Czech Republic had double-digit results, but cannot be classified in an upper middle position in this group.

From 1995 to 1999 almost all countries improved the inflow of FDI in securities in their economies, but some countries didn't change their position, like Ukraine, Byelorussia and Macedonia. In five years they couldn't reach a 10% participation of FDI in securities in their GDP. In Table 21, Hungary had the second highest results in 1999 followed by the Czech Republic and Latvia who had almost the same percentages. In 1999, Estonia had the largest improvement and value of inflow FDI in securities, which was almost 50% of her GDP in 1999.

Croatia had double-digit percentages and she took a middle position in this group. She increased participation of inflow of FDI in securities by almost ten times. There is no country in the group, which achieved such good improvement in their results.

The inflow of FDI in securities has to be looked from one more angle and that is per capita like in previous cases as shown in Table 22.

FDI in securities per capita shows that Hungary again was the leader and right behind her is Estonia and after her is Czech Republic and Slovenia. Between 1995 and 1998 Slovenia was the leader; but Czech Republic achieved better results in 1999 than Slovenia.

Croatia can be satisfied with her results with FDI in securities because she increased this type investment per capita almost nine times. In 1995 Croatia was close in results with Lithuania, but in later years Croatia improved her position more than Lithuania. Latvia started with a much larger amount of FDI in securities per capita almost two and half times, but from 1997 Croatia improved yearly.

4.2. Comparison with West European Countries

Comparison of Croatia with Western European countries shows discouraging results for Croatia with amount of invested FDI in securities. The poorest performing country was Iceland, and Croatia was right behind her. This group of western European countries are represented with countries, which were not leaders with their economic development. All of these countries had a bigger amount invested of FDI in securities. Even Turkey had a bigger amount of FDI invested in her securities than Croatia. Table 23 shows the complete set of results.

Table 22. FDI in Securities Per Capita

Country	1995	1996	1997	1998	1999
Albania	55.68	79.29	90.88	101.32	136.65
Bulgaria	40.70	53.35	113.48	180.36	275.03
Byelorussia	4.86	5.56	21.52	46.32	68.11
Czech Re.	711.71	684.20	656.60	1396.99	1580.35
Estonia	498.65	602.72	786.30	1256.15	1731.20
Hungary	978.20	1441.61	1564.73	1568.94	1896.23
Latvia	245.42	272.69	364.78	635.92	775.72
Lithuania	94.88	174.39	280.59	439.19	563.66
Macedonia	16.50	22.00	30.00	89.50	100.00
Moldavia	21.61	31.64	49.31	75.34	76.48
Poland	203.24	296.81	425.95	581.30	775.65
Romania	50.70	54.97	109.40	237.11	242.25
Slovakia	232.83	206.52	240.33	464.19	378.52
Slovenia	883.92	1019.09	1180.40	1468.18	1506.03
Ukraine	17.59	27.88	40.36	55.66	64.11
Croatia	*103.21*	*220.04*	*292.34*	*607.33*	*899.11*

(In units of U.S. dollars)

Spain, for example, is the leader in this group, and she had every year more than a hundred billion dollars of FDI invested in her securities. Greece and Austria are close to each other every year, and both of them had approximately twenty billion dollars of FDI yearly. Both Ireland and Finland experienced the largest increase in growth, because they made double investments during the period between 1995 and 1999.

Therefore, the question that remains is that should Croatia be discouraged with her position for invested FDI in securities? In order to obtain an answer to the question, data about invested FDI in securities has to be analysed thorough different perspectives.

[28] International Monetary Fond: "International Financial Statistics", New York 2000, pages 283, 284, 285, 286.

Table 23. FDI in Securities[28]

Country	1995	1996	1997	1998	1999
Austria	18.636	19.886	17.810	24.006	23.363
Finland	8.465	8.797	9.530	16.455	16.540
Greece	19.306	20.364	21.348	22.048	22.948
Iceland	0.129	0.197	0.333	0.466	0.529
Ireland	11.706	14.162	17.519	25.647	43.969
Portugal	17.579	16.879	18.076	22.446	20.513
Spain	106.900	105.034	100.805	118.921	112.582
Turkey	5.103	5.825	6.630	7.570	8.353
Croatia	*0.482*	*0.988*	1.492	2.733	4.028

(In billions of U.S. dollars)

Table 24. Average Growth Rate[29]

Country	Percentage
Austria	105.91
Finland	118.23
Greece	104.41
Iceland	142.30
Ireland	139.21
Portugal	103.93
Spain	101.30
Turkey	113.11
Croatia	*170.02*

(In percentage)

Croatia has a better outlook if she is compared with other countries from this group with an average growth rate between the years of 1995 and 1999. On the basis of average growth rate, Croatia had the highest average growth rate followed by Iceland and Ireland. Spain had the best results with the total amount of invested FDI, but had the poorest results in the average growth rate.

High average growth rate results for invested FDI in securities for Croatia is very encouraging, but Croatia cannot be satisfied with the results for total amount of invested FDI in securities.

Participation of invested FDI securities in GDP shows that Ireland had the best results, especially in the last two years where Ireland increased it's participation from 17.79% to 46.66%. Portugal is the second best country with participation of FDI securities in GDP with almost 20% yearly. Greece had lower results than Portugal; however, in 1999 Greece had better results than Portugal.

Table 25. Participation of FDI in Securities in GDP[30]

Country	1995	1996	1997	1998	1999
Austria	7.91	8.58	8.62	11.38	11.23
Finland	6.55	6.90	7.78	12.72	12.74
Greece	16.42	16.37	17.65	18.14	18.34
Iceland	1.85	2.69	4.45	5.64	6.00
Ireland	17.79	19.57	22.27	30.16	46.66
Portugal	16.41	15.03	17.10	20.06	17.99
Spain	18.27	17.25	18.14	20.43	18.87
Turkey	2.94	3.30	3.48	3.77	4.51
Croatia	*2.56*	*4.97*	*7.39*	*12.56*	*19.96*

(In percentage)

Croatia started with 2.56% in 1995 and in 1999 FDI securities participated in her GDP with almost 20%. In 1999, Croatia was the second best country in this group, and only Ireland was better with spectacular results of 46.66%.

On the basis of calculation FDI in securities per capita, Ireland had the highest result. Ireland had an

[29] Counted on the base of data from Table 21, page 18,

[30] International Monetary Fond: "International Financial Statistics", New York 2000, pages 283, 284, 285, 286.

[31] International Monetary Fond: "International Financial Statistics", New York 2000, pages 297, 298, 299, 300.

Table 26. FDI in Securities Per Capita[31]

Country	1995	1996	1997	1998	1999
Austria	2,315.03	2,467.24	2,206.94	2,971.04	2,856.11
Finland	1,656.55	1,718.16	1,854.08	3,195.14	3,199.23
Greece	1,847.46	1,941.41	2,033.14	2,095.82	2,158.79
Iceland	477.78	729.63	1,233.33	1,725.92	1,889.28
Ireland	3,251.67	3,901.38	4,773.57	6,931.62	11,725.07
Portugal	1,772.08	1.699.80	1,818.51	2.251.35	2,059.54
Spain	2,726.34	2,674.67	2,563.71	3.020.60	2,855.96
Turkey	84.19	94.67	106.13	119.31	129.72
Croatia	*103.21*	*220.04*	*326.48*	*607.33*	*899.11*

(In units of U.S. dollars)

extremely strong growth of FDI in securities per capita and this statement is confirmed in 1999 where she had more then $11,000 U.S. The second best country was Finland, but her amount FDI in securities per capita was much lower.

Croatia had strong growth of amount invested FDI in Croatian securities between 1995 and 1999. She was the last one in the group, but she was better than Turkey. The difference between Turkey and Croatia is that Croatia has a stronger growth of FDI in securities per capita than Turkey. The growth was almost 900%. There is no country in this group with such a strong growth of FDI in securities per capita like in Croatia, and this should be very encouraging for Croatia.

5. Conclusions

FDI is without a doubt very important for economic development in developing countries, since this is the only way for them to get new technology and support for growth of employment. Croatia is obviously the country, which desperately needs foreign investments. For the last five years she has tried to attract foreign investors into Croatia. The mark of success for Croatia to attract foreign investors in her economy was researched with two targets:

Firstly, evaluate the success in comparison with countries from Eastern Europe where Croatia has belonged for a long time through the Yugoslav federation, and

Secondly, evaluate the success in comparison with developed countries from Western Europe with countries, which are not the leaders in economic development.

Currently in the Croatian public there exists an opinion that the most important target for Croatia is to obtain a full membership in EU as soon as possible. This opinion was created partly by the Croatian government. Membership in EU is comprehended as a fastest solution for serious economic problems in Croatia. That is why one seldom finds an underrated opinion about the success of Croatia in appearance to the international capital markets.

On the basis of quantitative research made in this report, four conclusions can be made.

1. During the last five years Croatia had a great increase of FDI inflow in new projects in Croatia.

The amount of FDI invested in new projects in Croatia was growing year after year and in 1999 Croatia was the second country in the group of Eastern European countries. This statement was received on the basis of two calculations:

- FDI in new projects per capita
- Percentage part of FDI in Croatian GDP.

In the group of Western European countries, Croatia showed the second best results in FDI percentage as part of Croatian GDP. The results of FDI per capita in new projects showed that Croatia took a fourth position in the group of Western European countries. These results are very good for Croatia because she is not a leader with her economic development in Easter Europe and does not have a very good economy like countries in the group of Western Europe.

2. The last five years show Croatia having good success in increasing inflow of FDI in Croatian securities, but not like in the new projects.

In the group of Eastern European countries Croatia took a middle position, and in the group of Western European countries Croatia has lower results. However, Croatia had the fastest growth of inflow of FDI in her securities than any other country in the Eastern or Western European group of countries. If Croatia would keep that speed in growing inflow of FDI in securities, she would be able to be a leader in both groups of countries for at least a couple of years.

3. Level of attractiveness for foreign investors does not depend on the membership in any organization or association.

The data showed that for some countries, which have been a member of EU for many decades (e.g., Greece) it does not increase attractiveness for foreign investors. For some new members of EU, like Ireland, membership helped her to increase her attractiveness for foreign investors. Austria is a newer member of EU, but it did not change her attractiveness for FDI with her membership in EU.

4. The first steps of Croatia at the world FDI market were successful, but she cannot expect to increase her attractiveness for foreign investors by any membership.

Croatia currently is very far from being included in the EU. Almost all Eastern European countries are closer to this goal such as Romania, Moldavia, Bulgaria or countries from the Baltic Sea. Even though the EU as an organization is based on the economic interest for all present and future members, but the membership in EU is still managed mainly by political interests. Croatia has a much better economic situation then many Eastern European countries, but it is not a good enough reason for the EU to include Croatia in any plan of integration.

That is why Croatia has to try to find solutions for economic development without plans of membership in EU. Croatia must not have illusions about her economic or political importance for EU or their wish for Croatian integration in the EU.

Croatia is currently included in the group of "Western Balkan" countries. The main point of formation for this group of countries is to have a policy of "soft borders" between countries as a solution for ethnic problems, which have existed in that area for the last decade. In the near future Croatia can expect to have pressure from the EU to establish both free trade and the monetary union with Yugoslavia, Bosnia and Herzegovina, Albania and Macedonia. Monetary union will be offered through the Euro currency for all these countries in the group. In that case the EU expects to avoid the challenge of currency type on the role of monetary unification in the Western Balkan.

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